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SUBJECT: Georgia: Poti Seaport Management Positive About the
Future

¶1. (SBU) Summary: UAE-based Rakeen Group Managing Director of Poti Seaport Rony Saab briefed the DCM January 28 about the Group's vision for the port's development and received an update on the free industrial zone project. Saab sees huge potential in the seaport's development, particularly as a gateway port for exports from Caspian Sea nations to Europe. He also argued that a U.S.-Georgia Free Trade Agreement (FTA) would be a huge plus for Poti port and Georgia's economic growth. End summary.

Poti - Rakeen's Seventh Free Industrial Zone

¶2. (U) RAK Investment Authority, headquartered in Ras Al-Khaimah, UAE, took over the controlling stake of Georgia's main port in Poti in April, 2008. In December 2008, Rakeen acquired the remaining 49 percent share from the Government of Georgia. Rakeen pledged to reconstruct the old port facilities and develop a free economic zone on 300 hectares of land adjacent to the port, and also a new port terminal on an adjacent 100 hectare site. Although the agreement has been signed, Rakeen still needs to finalize its financial arrangements. Rakeen plans to apply a multi-model development concept to the port, which implies a combination of port facilities, airport, depot, railroad and free industrial zone. Rakeen operates six other free economic zones around the world. 3. (SBU) Rakeen's immediate goal for Poti is to optimize the port's existing facilities in order to reach their full productive capacity. Within four years, Rakeen plans to further increase the capacity of Poti port by developing new terminals and berths together with infrastructure to accommodate growing cargo shipment turnover. Currently the port is handling 200,000 tons daily, which Rakeen intends to increase to 1.2 million tons within four years. Out of twelve existing berths, Rakeen owns five. The remaining seven are operated by other private companies which secured their contracts with the government prior to Rakeen's entry into the deal, although a senior Rakeen executive hinted that Rakeen would like to control them all eventually.

¶4. (SBU) Saab told the DCM that despite the Georgia-Russia conflict, which discouraged many foreign investors, Rakeen never questioned its decision to invest in Georgia. Moreover, he said that despite Poti Seaport's importance, Pot is not Rakeen's major or priority project in Georgia. Rakeen is primarily focused on business and residential development projects in and around Tbilisi, including a huge mall/office building project "Uptown Tbilisi," located in the Digomi section of Tbilisi, near the Embassy.

Comparative Advantages of Poti

¶5. (SBU) Saab suggested that Poti had some natural advantages with regard to future development. He explained that there are four major port operations on the Black Sea handling passenger and cargo and which connect with rail links: Istanbul, Odesa, Illichevsk and Constantia. However, the eastern side of the Black Sea is lacking such a significant port. According to Saab, some investors suggest that Odesa (Ukraine), which is relatively close to Poti, is a less attractive option for shippers due to the inefficiency of Ukrainian

customs service in comparison with Georgian customs authorities. Georgia's fast-paced business and economic reforms over the last five years, give Poti a comparative advantage over other possible options, especially when coupled with the adjacent free zone capacity. Novorosiisk, a potentially competitive Russian port, is not operational for 90 days a year due to icy water.

¶6. (SBU) Poti also serves as the gateway to Georgia and the Caucasus and an important link between Central Asia and Europe. Potential export of raw materials from Central Asia opens great opportunities for Georgian railway and the Port of Poti. Already today, there are huge piles of aluminum ingots, produced in Tajikistan, on the dock in Poti awaiting further transport to Europe. Saab underscored the role of Iran as a potential destination for or initiator of cargo. He said that only a small segment of railroad needs to be constructed in the Northern part of Iran to connect the Iranian rail system to the Azeri one. If the link is made, rail transportation through the Caucasus to Poti could be Iran's natural preference, boosting Poti's importance. In this regard he mentioned that Iranian businesses were interested in investing in Poti Port. Saab assured the DCM that Rakeen, though looking for investors, does not plan to invite Iranian investment in actual port ownership, preferring to transit Iranian cargo.

¶7. (SBU) Rakeen is actively looking for other companies to participate in the port development project. According to Saab, it has secured EBRD support for the rehabilitation and construction of new berths. Rakeen assured the DCM that it did not face cash flow problem, but the EBRD investment was a needed political signal to encourage the participation of European investors. Rakeen would prefer American investors to European, as the company thinks the latter would try to adjust the Port's operations to Europe's export

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needs rather than regional development needs, or the export needs of Asia. However, Rakeen would be pragmatic in seeking out investors.

US-Georgia FTA's to Boost Economic Growth

¶8. (SBU) Rakeen told us that an FTA between Georgia and the United States would be much more than just a political signal of support. An FTA would significantly boost Poti Seaport's operations, as well as Rakeen's business. While an FTA may not have a major impact on the U.S. economy, it could significantly benefit that of Georgia.

War's Effect on Port Operations

¶9. (SBU) According to Saab, the August invasion disrupted the port's operations for only a brief time, and on-going business was not significantly affected. During the conflict, Russian military jets bombed the port territory (the area is adjacent to a military base) and destroyed an electrical distribution station, destroying the facility and killing six workers. The bombing also damaged four nearby oil terminals. Fortunately, they had been depressurized prior to the bombing for annual cleaning, so damage was minimal. Fortunately, the bombs missed the fourth terminal which was full of jet fuel. Saab said that a hit on a pressurized oil terminal would have resulted in a huge explosion that would have destroyed the port and much of the surrounding area.

¶10. (SBU) Saab mentioned that the Spanish dredging vessel Boscals, which had been conducting operations prior to the war, abandoned the port because of bombing. Dredging operations remain necessary, but the Port authorities fear that there could still be unexploded ordnance in the port's waters which pose a serious threat to dredging vessels. In total, the port sustained up to 2 million Euros in damage (physical damage and loss of potential cargoes); Rakeen covered the costs of clean-up and will seek the repayment of 1.2 million Euros from the Government of Georgia since, at the time of the conflict, the Government owned 49% of the port. Saab noted that the Georgians planned to present this claim to Russia through an international court, but he was uncertain as to whether the suit would be successful.

¶11. (SBU) Both the General Director and Marketing Manager of the Seaport told the DCM that port operations have decreased since fall 2008; however, they attributed the reduction to the world economic crisis, rather than the Georgia-Russia war. Nevertheless, the port still expects four percent annual growth in its operations in 2009, an optimistic target given the slowdown in Georgia's economy as well.